

**STEVENS COUNTY, WASHINGTON**  
**January 1, 1992 Through December 31, 1992**

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**Schedule Of Findings**

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1. The County Should Establish A System Of Administrative Controls To Ensure Timely Compliance With Federal Grant Requirements

The county does not have a comprehensive system of administrative controls that facilitate the identification, implementation, and monitoring of federal grant requirements. This condition contributed to the following violations of federal regulations:

a. "Common Rule" - Procedure

The county has not established written policies and procedures for procurement.

The "Common Rule" for *Uniform Administrative Requirements for Grants and Cooperative Agreements with State and Local Governments*, as referenced by the *Compliance Supplement for Single Audits of State and Local Governments*, and prescribed by the U.S. Office of Management and Budget, requires grant recipients to have both a written code of standards of conduct governing the performance of employees engaged in the award and administration of grant contracts and a written selection procedure for grant procurement transactions.

b. "Common Rule" - Accounting

All federal and state funded grant expenditures are not identified in the county's accounting records.

The "Common Rule" for *Uniform Requirements for Grants and Cooperative Agreements with State and Local Governments*, Subpart C, Section .20(b)(2), Accounting Records, states:

Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

In addition, the *Budgeting, Accounting and Reporting System* (BARS) manual, Volume 1, Part 3, Chapter 5, page 3, prescribed by the State Auditor's Office states in part:

At the inception of a grant . . . one or more project codes shall be assigned locally to identify the particular grant. The coding must be incorporated into the basic coding structure the municipality uses to identify all its transactions.

c. Subrecipient Monitoring

The Spokane Indian Reservation was a subrecipient of a mental health grant sponsored by Stevens County. The reservation failed to prepare the required program report and the county did not detect this failure.

The grant states in part that:

The Contractor Shall:

. . . Within 30 days of conclusion of this project provide the Mental Health Division a report of the model program, outlining target populations, goals, strategies/objectives, outcomes desired, and established length of intervention . . .

Failure to comply with federal regulations could jeopardize the county's ability to obtain future grant funding. Furthermore, it has resulted in a questioned cost which may be subject to grant payback provisions. This amount is detailed on the Schedule of Questioned Costs.

The reasons provided for these violations included personnel not being aware of a requirement, inadequate resources, and the requirement was not a priority.

We recommend the county continue to develop a comprehensive system of administrative controls to ensure that federal requirements are identified, implemented, and monitored.

2. The County's System Of Accounting Controls Should Be Improved

Our audit identified numerous deficiencies and discrepancies which were caused by the lack of a uniform and effective system of internal accounting controls.

Specific examples of areas where controls and procedures should be improved include:

a. Accounting Records Should Be Reconciled In A Timely Manner

The detailed revenue, nonrevenue, expenditure, and nonexpenditure accounts are not reconciled to accounting reports until months after the transactions have been recorded. This resulted in the 1992 annual report not being issued until August 1993.

b. Transaction Codes Should Be Established

The county has not established coding for nonrevenue and nonexpenditure transactions which would allow them to automatically process within the accounting system. This situation resulted in the manual review and adjustment of several hundred entries.

c. Controls Over The Preparation Of Schedules And Reports Should Be Improved

Our review of the Schedule of Federal Financial Assistance revealed that some grants were misclassified, had been assigned incorrect Catalog of Federal Domestic Assistance (CFDA) numbers, or were in fact not grants, but actually contracts for services.

The 1992 State Road Report overstated revenues by \$43,255. Furthermore, it had not been reconciled to the financial statements or to the Schedule of Federal Financial Assistance prior to submission.

d. Communications Should Be Improved

Various departments prepare individual fund financial statements and provide the county auditor's office with adjusting entries for financial statement purposes. Confusion exists, between departments, on how to properly record some of the adjusting entries.

e. Inventory Controls Should Be Improved

The Equipment Rental and Revolving Fund does not have an inventory control account for repair parts. Without a control account, the county cannot determine if all additions to or issues from inventory are properly reported in the accounting records. Additionally, the county cannot determine if all items issued from inventory have been authorized.

f. Policies And Procedures Should Be Documented

The county does not have written policies and procedures covering:

(1) Proper source document control, document origination, authorization, data collection, preparation, and error handling.

(2) The process of identifying, correcting and reprocessing data by the county's

computer system.

(3) Methods for proper balancing and reconciliation of output reports.

g. Controls Over Accounting Entries Should Be Improved

(1) Journal entries were not prepared for all adjusting, reversing, and correcting entries. Instead, a maintenance screen may be used which does not provide an audit trail of changes.

(2) All journal entries are not reviewed and approved by an independent person.

(3) Authority levels have not been established for standard and nonstandard entries.

(4) No policies have been implemented establishing adequate supporting documentation for entries.

The county's decentralized organizational structure has inhibited the development and operation of effective accounting controls. Additionally, lack of sufficient supervisory review and technical training have also contributed to the internal control weaknesses noted above. These internal control weaknesses have contributed to the county's failure to produce reliable financial statements and other reports in a timely manner. Furthermore, some of these weaknesses fail to adequately protect county assets.

We recommend:

- a. The county's newly formed accounting committee continue to address the county's financial reporting problems. The committee should periodically report their progress to the county commissioners and department heads.
- b. The county continue to improve staff training and reference material pertaining to financial reporting, legal compliance, and internal control issues.
- c. Additional review of staff functions be performed by supervisors and/or other qualified individuals.